



DEPARTMENT OF THE AIR FORCE
HEADQUARTERS UNITED STATES AIR FORCE
WASHINGTON 25, D. C.

DPD-2823-59

#430-A

REPLY TO:

Eastern District
Auditor General
Comptroller, USAF
Liaison Office
Washington, D.C.

29 April 1959

SUBJECT: Advisory Report on Analysis of Contractor's Price Proposal
Lockheed Aircraft Corporation
Missiles and Space Division
[redacted] California
Contract No. AF33(600)-37230 (RT-100)

TO : Contracting Officer

REF : COR-0391 and COR-0390

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1. In accordance with your request we have examined the accounting records and other data to determine the reasonableness of the Contractor's proposal under subject contract. Our review was limited to the prime portion of the total contract amount, and included certain additional items which were not reflected in the Contractor's proposal. Comments regarding the construction of the total price proposal appear in paragraph 3.

2.. Results of Examination: Based on our review we believe the Contractor's proposal, generally, is reasonable for the procurement contemplated. Comments regarding specific elements of the proposal are given below.

a. Direct Labor: The Contractor prepared its proposal on 26 August 1958, at which time the rates used in the estimate fairly represented rates of individuals already employed on the Project, or whose assignment thereto was contemplated. Examination of actual labor rates experienced to date, however, disclosed that the cumulative average rate is running somewhat below those used in the estimate. The effect of the difference in labor rates is summarized below:

Per Contractor's Proposal:

1958 -
1959 -

Per Auditor:

Difference:

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*Based on review of experience to date, the Contractor's estimated total of 40,000 hours appears reasonably accurate.

b. Lease: The Contractor's proposal includes an estimated amount of [] to cover the cost of facilities, materials and services provided by [] under their subcontract with LMSD. In the absence of a break-down of this total, the following schedule, showing costs incurred thru 28 February 1959, indicates the nature and amounts of expenditures being reimbursed to []

Personnel services
Factory labor & overhead
Building rental
Equipment rental
Telephone
Teletype
Aircraft rental
Material & Supplies
Plant rearrangement

Total

Monthly Rate of expenditure:
Period, April - June 1958

Period, July 1958 -
February 1959

It is not expected that the present rate of expenditure will be sustained during the balance of the contract period.

c. Material and Equipment: The Programmer included under this category was originally estimated at []. The contractor now believes that [] would be closer to the actual final cost. [] indicated that the increase of [] in Programmer cost may be coverable from amounts provided for the [] lease and for Direct Labor costs, commented upon above.

d. Development and Contract and Administrative Overhead: Indirect expenses included in the Contractor's proposal are based on division-wide recorded costs at the Sunnyvale facility as set forth below. It is the Contractor's consistent practice to apply C & A expenses on a direct labor hour basis. This method excludes subcontractor costs from the C & A base, and explains the low amount of this type of expense in the Contractor's proposal.

Per Proposal:

Development Overhead

1958 - []
1959 - []

Contract & Administrative Overhead

1958 - []

1959 - [REDACTED]

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Total Overhead Proposed

For security reasons, work on this Project is being performed in leased facilities which are located a considerable distance from the Contractor's plant at Sunnyvale. The method of operation is such that many indirect items of cost in relatively substantial amounts are charged direct to this contract. Under these circumstances, it is the opinion of the Auditor that the Contractor's division overhead pools should be appropriately adjusted before allocation to this Project, to prevent inequity in accumulating costs under this contract. We believe that the effect of such an adjustment should be to substantially reduce the total amount of indirect costs included in the Contractor's proposal.

Discussions on several occasions with the Contractor's accounting representative, [REDACTED] indicate his concurrence with the Auditor's position. Costs accumulated under this contract are receiving the same accounting treatment accorded all other fixed price work. Mr. [REDACTED] expressed concern over any attempt to deviate from its routine overhead application practice in favor of this contract, lest security be jeopardized by drawing unnecessary attention thereto. We do not feel that an attempt to arrive at an accounting determination of such indirect costs as may be applicable to this effort should be made at this time. The Contractor has indicated that it does not consider this to be a strongly controversial subject and desires that it be resolved as to dollar amount at time of price redetermination. This course is acceptable to the AF Accountant.

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e. Other Material:

The Contractor has included an estimate of [REDACTED] in its proposal to provide for certain materials not included elsewhere. Based on an analysis of costs experienced to date expenditures for the period of contract performance would be indicated as follows:

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Petty cash expense
Optical coating lab.
Truck rentals

50X1

This amount, [REDACTED] is approximately [REDACTED] less than the Contractor's estimate. In the Contractor's opinion the proposed amount of [REDACTED] is still considered valid, although detailed support is not available. The difference appears to be a provision for contingent material requirements which the Contractor feels should not be disturbed due to the R and D nature of its activities. Under the circumstances, no exception is taken by the Accountant to the Contractor's estimated amount.

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3. Accountant's Comments Regarding Contractor's Total Price Proposal:

Exhibit A sets forth the Contractor's total price proposal (including subcontractors) by separate elements, together with a restatement of the proposal by the AF Accountant after giving effect to certain reclassifications

of subcontractor's costs. The Contractor included in its presentation, as Contractor's own charges, the subcontract items shown below:

[] (T&M and Facilities)
 Fairchild (Totalizer -P.O.#100-7)
 Fairchild (Programmer-P.O.#22-1615)

Total



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The treatment of subcontractor amounts in a Contractor's price proposal ordinarily does not warrant attention. In this instance, however, where there is such a marked disproportion between the Contractor's own charges and the amount subcontracted, we feel that a correct statement of these items has significance with respect to the profit factor included in the proposed price. The following data are therefore furnished for the information of the Contracting Officer, as a measure of the management fee contemplated by the Contractor.

Total Contractor's own Charges (LMSD)
 Total subcontract costs



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Ratio, subcontract costs to
 Contractor's own charges

14 to 1

Profit factor, applicable equally
 to prime and subcontract costs

7.5%

In view of the above, the local AF Accountant is in process of obtaining profit data on the prime Contractor's two main work programs, the Polaris and 117-L contracts. This additional information will be submitted to the Contracting Officer as soon as it has been developed.



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Liaison Officer
 Eastern District
 Auditor General

EXHIBIT ARestatement of Contractor's ProposalLockheed Aircraft CorporationMissiles and Space DivisionContract No. AF33(600)-37230Price Proposal

	<u>As Submitted By Contractor</u>	<u>AF Accountants Reclassification</u>	<u>After Reclassification</u>
Direct Labor			50X1
Development Overhead			
Contract & Admin. Overhead			
<u>Material & Equipment</u>			
Test Equipment			
Programmer			
Totalizer			
Other Material			
Total			
<u>Direct Charges</u>			
[] Lease			50X1
Travel			
Overtime Premium			
Total			
<u>Total L.M.S.D.</u>			
<u>Subcontracts</u>			
General Electric			
ITEK			
[] (T&M & Facilities)			50X1
Fairchild (Totalizer)			
(P.O. #100-7)			
Fairchild (Programmer)			
(P.O. #22-1615)			
<u>Total Contract Costs</u>			
Fee			
<u>Total Price</u>			

- Notes: (A) The Contractor stated that programmer costs are expected to increase approximately [] and that additional test equipment (cooling blanket and air conditioning) totaling about [] will be required. (See Report para 2.c.). 50X1 50X1
- (B) See Report para 2.b.